



EXCLUSIVE INTERVIEW

## Sam Byrne on the Future of the Yellowstone Club

*In an exclusive interview, Sam Byrne, principal at CrossHarbor Capital Partners and prospective buyer of the bankrupt Yellowstone Club, discusses his involvement with the club and his vision for its future.*

By Jonathan Weber, 3-09-09

*Sam Byrne, the Boston-based real estate investor and would-be buyer of the Yellowstone Club, generally tries to keep a low profile, even as he maneuvers to gain control of one of the more high-profile properties in the world. In stark contrast to the celebrity-loving former owner, Tim Blixseth, the 44-year-old Byrne comes across as a sober, thoughtful businessman, eager to find a viable (and, hopefully, nicely profitable) solution for a place that he and his family love. His multi-billion-dollar investment firm, CrossHarbor Capital Partners, counts distressed real estate as one of its specialties, and thus the machinations surrounding the Yellowstone Club bankruptcy are not exactly unfamiliar territory.*

*Yet even by the standards of a complex real estate workout, the Yellowstone Club drama has been exceptionally emotional and contentious, and Byrne has absorbed a lot of brick bats from various parties who claim that he has schemed to steal the club on the cheap. In particular, Credit Suisse, the club's primary lender, has engaged in a relentless - and so far, wholly unsuccessful - effort to prove that Byrne, together with club manager Discovery Land Company, has exploited the financial troubles of club owner Edra Blixseth to gain advantage. Credit Suisse arranged a \$375 million loan for the club in 2005, and now represents a lender group that is still owed \$310 million - much of which will likely never be recovered.*

*Byrne has been involved with the club since 2005, as a member and then as a developer of several major projects. He had a deal to buy the whole property from Tim Blixseth early last year for about \$400 million, but the deal fell through. When the club slipped into bankruptcy last November, CrossHarbor provided \$20 million in interim financing after Credit Suisse was unable to come up with the money for its own interim loan.*

*Now Byrne and CrossHarbor are proposing to buy the club out of bankruptcy, offering \$100 million in cash and assumed debt, a commitment of \$75 million in working capital, and \$7.5 million to pay off all the trade creditors. A bankruptcy court judge last week approved a framework for the sale of the club, with CrossHarbor's offer functioning as the official "stalking horse" bid; other parties will have the chance to make their own offers at an auction that is likely to take place in early May (assuming, of course, that other bidders actually emerge).*

*In the wake of that decision, Byrne agreed to sit down with NewWest.Net founder Jonathan Weber and discuss his involvement with the club and his vision for its future. Byrne clearly takes a lot of pride in his club properties, including an extraordinary \$14 million spec house and the luxurious Sunrise Ridge condominiums, where the interview took place.*

New West: In the bankruptcy proceedings, various players have painted you as a ‘bad guy’ who is trying to steal the club on the cheap. How do you respond to that kind of attack?

Sam Byrne: I think the record in the court speaks for itself. We have said all along that our goal is to have the club survive and thrive, and get separated from the circus atmosphere of the bankruptcy as quickly as possible. We don’t think a lot of the noise of the bankruptcy is helpful to value, but it’s something that’s part of the process and everyone has to deal with that.

NW: Some of those accusations are related to the deal you had to buy the club back in March of 2008. Why did that deal fall apart?

SB: It was our desire to have seen that transaction go through at the time as it was contracted for. It didn’t happen.

NW: Why didn’t it happen?

SB: I’m not sure I’m the one who has the answer as to why it didn’t happen. We wanted it to happen, we were prepared for it to happen. The court filings provide more detail on that.

NW: What about this notion that you didn’t have the money to close?

SB: That is not legitimate. That is not the reason the transaction didn’t close.

NW: You had attempted to buy the club last spring, and you are now going through a difficult and complicated process to hopefully acquire the club now. What is it about the club that is so compelling? What motivates you to continue through this process?

SB: We have significant business interests in the club that we need to protect, and we believe in the club as a long-term investment if properly capitalized. There is a process now for a resolution of this in a reasonable timeframe, a process that will ensure the transition of the club to well-capitalized ownership, be it us or someone else. We think that’s very good.

NW: You said you had significant investment in the club already—can you quantify that?

SB: We have the Sunrise Ridge condominium project, over \$150 million has been spent on that project. It’s been successful to the extent that it was delivered on time and on budget; at one time it represented the largest construction project in the state of Montana. We had great partners on that project – Boles Construction, UpperCross Development, various tradespeople and contractors. And it’s a very successful project for people who have bought here, it’s a real community. We still have units to sell - 58 units total, 27 left to sell.

We also own five single-family development projects in the club. Those homes are all available on that market. So that’s another \$35 million.

In the fall of 2005 we acquired the golf course lots, we invested \$55 million in that. And we have a lot of money invested in investigating the club and understanding it.

NW: What prompted you to get involved in the first place?

SB: I came here as a guest of a family friend, in 2004.

NW: And what was it that caused you to say, ‘wow, this is a great opportunity’?

SB: We really enjoyed the club, found it to be a special place with a great group of people. In 2005, we bought some single family home lots to test the waters in Montana with a homebuilding company we were involved with - a high-end home builder who we had a lot of experience with in Hawaii. We used a series of different contractors and architects. Then we were offered the property at Sunrise Ridge in early 2006.

NW: And you saw it as a development opportunity?

SB: We thought there was demand for a vertical construction project, and we thought we could do a great job, as I think has been proven out. Then in the summer of 2007 we were offered the opportunity to invest in the whole property.

NW: And you found it personally compelling?

SB: It’s a very special property.

NW: What would you say is so special about it?

SB: The skiing is something that is truly unique worldwide, almost impossible to replicate anywhere else. The natural beauty is extraordinary. And there is a tremendous group of people in the membership.

NW: Can you tell me a little bit about your business outside of the Yellowstone Club?

SB: We are a real estate private equity firm. We manage a series of co-mingled funds. We’re currently investing our eighth fund, and fundraising for our ninth fund. These are funds that institutional investors make capital commitments to.

NW: What’s the scale of those funds?

SB: In the half-a-billion to a billion range in the current iterations.

NW: How quickly do these funds exit?

SB: They tend to have a five to nine year life. In addition to the funds, we also co-invest in larger deals – the fund partners will also put money in alongside.

NW: What kind of deals do your funds do?

SB: All kinds of debt and equity deals throughout the country that have some relationship to real estate.

NW: And the Yellowstone Club investments are made through one of your funds?

SB: Several funds.

NW: Can you say who the investors are?

SB: That information is not public, but we have an outstanding group of blue-chip limited partners and we are very proud of that.

NW: We are currently in a pretty disastrous real estate climate, and a lot of real estate investors are in very bad shape. How have you dealt with the downturn?

SB: We are doing fine. We are a very low-leverage firm. Going into 2006 we liquidated \$2.5 billion of property. We do a lot of distressed debt investing so we saw the market going in a certain direction.

NW: This all goes to the question of who, exactly, is trying to buy the club...

SB: One thing that's important about who it is: We have offered the membership the opportunity to co-invest as much as they'd like in the club. It's part and parcel of trying to bring long-term stability, we think it's a great idea for the members to invest side by side. These is no doubt this club can be successful. They've sold \$1 billion worth of real estate here.

NW: Do you have previous experience with this type of development?

SB: We've done some resort development in Hawaii, and the Caribbean. Take a look at what we have done up here, what Sunrise Ridge is about. Speak to some of our owners. We have proven we can over-deliver.

Discovery Land is one of the best operator/ developers in the country, in and of themselves, the best private club operator in the country. We have never said we wanted to operate. We interviewed a series of operators for the club and we think Discovery has the right experience to take Yellowstone Club to the next level.

NW: So they would run the club and you would manage the development?

SB: We would do it jointly.

NW: The real estate market is obviously in very tough shape. If you look around there is a lot of inventory of high-end mountain real estate, and at the moment at least, essentially no demand. How do you see the market evolving?

SB: We think it's going to take a few years for there to be any kind of market recovery and the club has to be capitalized adequately to weather that storm.

NW: Do you think it's going to recover to what we saw over the last ten years?

SB: Clearly there aren't going to be as many buyers for this type of property as there have been in the past. I don't want to speculate about the market in general, but I know that the club is truly a unique place. It is well past the tipping point in terms of its membership base, it certainly has all the tools to be successful, provided that it's capitalized to get through this challenging economic downturn. We are not projecting any robust property sales for four years. We hope to be pleasantly surprised once the club is stabilized and out of the bankruptcy proceedings.

NW: If you emerge as the owner, do you envision any substantial changes from the way the club is has been developed up to now?

SB: Historically, the club has been primarily developed with single family lots. The next generation of the development will be focused on vertical product. There will be some lot sales, but development will be largely vertical product concentrated around the base area in an environmentally sensitive and thoughtful masterplan.

The prior plan had been to take single family lots all the way up Eglise, one of the 3 primary peaks on the property, which would have been very expensive and environmentally insensitive, and it would have made expansion of quality skiing onto Eglise very difficult. Maintaining the ski experience as the membership base expands is critical to the club's success and must be the primary focus of future development plans.

Controlling the vertical development in one enterprise rather than selling product in bulk is also important. It eliminates property being sold to disparate developers, where ownership would not have adequate control over delivery of product, product quality or pricing. We think it is important for future plans to be fully integrated in a thoughtful master plan. Our plan involves concentrating much of the future development activity down into the base area in order to create more of a community, a village concept. This plan was created with months of planning work and charrettes, between ourselves, Discovery, Hart Howerton, Snow Engineering and Morrison & Maierle – there is a great team working on it.

NW: So all of that means fewer single-family lots and more high-density development?

SB: Yes, a plan that preserves as much open space within the club as possible. The key differentiating factor for the club has been the skiing. Maintaining the ski experience as the club gets bigger is the primary rationale behind our planning. At 550 members, we think you need to expand the ski terrain to maintain the existing experience. To do that, you want to build out the skiing on Eglise.

Snow Engineering is the best of the best. We had them in here to do an extensive analysis of the skiing and what the right way was to preserve the ski experience that you have today with more members. For the club to be viable it needs a robust membership, but to keep it special you have to keep the skiing special.

NW: You also mentioned developing in a more environmentally sensitive fashion?

SB: Yes, more of a new urban concept. And we certainly envision the club having a greater focus on sustainability. That means different things to different people – environmental sustainability, human sustainability, financial sustainability – where those things intersect makes for long-term sustainability. Construction practices, consumption of energy, all those things are going to be looked at.

NW: What about the relationship with the community, Big Sky and Bozeman and the nonmember neighbors? These days I think there is a sense in town that this was a crazy project and people are getting what they deserve, though people also lament the lost jobs. How do you think about this issue?

SB: It's unfortunate if that's the case. I think the memberships efforts with Big Sky LIFT, the desire for ownership to be sensitive to the economic sustainability of the club is critical. It's an important economic driver. Making sure it continues is probably the best thing we can do. It's hard for me to think the community has problems with the members.

We have made arrangements in our plan to make sure the community and the unsecured trade payables are getting paid. It's not something we get credit for in our bid, it's an incremental \$7.5 million that we are gifting to a fund to make sure people get paid in the community. We think that's critical to rebuilding the relationship the club has in the community.

NW: Some people have problems with the very idea of a private club.

SB: It's analogous to a private golf club, or a private tennis club – I don't know why this would be viewed any differently, these were private lands.

NW: Actually they weren't, they were public lands.

SB: Well, they were checkerboard. But it's a private club like any other private club, we want to be a good neighbor, and be supportive of the community in which it exists. It would be a primary goal of ours to do everything we can to be the best possible neighbor, and the most important thing in that is to make sure the club prospers.

NW: So what do you think are the challenges? What are the things that worry you?

SB: We're in a very challenging economic environment. Of all the private residential communities developed in 2004-2006, probably 40 percent - 60 percent are insolvent, largely due to debt.

NW: Any other significant challenges?

SB: The club has a lot of work to do rebuilding its reputation. First and foremost the privacy of the club members has been really violated, we have to give them that back. We need to separate the club from public scrutiny. At the end of the day it's a sensational story, but it's really just a real estate development, a very special real estate development and club, and it doesn't need to be anything more than that.

NW: One of the ways the club was marketed was as a super-exclusive place, not just another real estate development...

SB: We want to offer an exceptional experience; It's not about being exclusive. It should be a great experience for families that are members. It's a unique person that wants to be here in southwest Montana. This isn't Aspen, it isn't Vail, there is a family focus, and a focus on skiing, an extraordinary ski experience, that's what it needs to be about. If people want to be in the public eye and have exclusivity, this is not the place.

NW: I take it you are an avid skier?

SB: I'm an avid skier and the club needs to be very skier centric. Everything we do needs to focus on the skier experience.

NW: And your family are big skiers and snowboarders?

SB: Yes, the kids are big skiers and snowboarders and have developed great relationships with the other kids at the clubs. If you look at what goes on, with the member race programs, biathlon, all kinds of skier-focused events. Keep it about the skiing.

NW: Given everything that has gone on, do you wish you'd never come near the place?

SB: I still love the place. It's been a challenging year. With the process that has been put in place, it's on the rails to a resolution, with capitalization and new ownership.

NW: Do you expect there to be multiple bidders?

SB: I don't know, it seems from the testimony from current ownership that there is a lot of interest.

NW: Do you expect the former owner [Tim Blixseth] to make a bid?

SB: I'm not going to comment about the former ownership. We're looking forward.

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